

Message Text

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E.O. 11652: N/A

TAGS: ENRG, IEA

SUBJECT: ENERGY: IEA/SLT REVIEW OF ITALIAN ENERGY
PROGRAM

OECD - PASS TO PETER KELLY, IEA SECRETARIAT
ROME - PASS TO MR. F. FOLCHI, MINISTRY OF INDUSTRY

THE FOLLOWING IS THE FIRST DRAFT OF THE REPORT
ON THE ITALIAN ENERGY PROGRAM PREPARED BY THE US RAPPORTEUR
RELATING TO THE REDUCED DEPENDENCE EXERCISE. YOUR COMMENTS
ARE WELCOME AND THE US DELEGATION WILL BE AVAILABLE FOR
DISCUSSION OF THE REPORT AT THE JANUARY 12-14 IEA/SLT
MEETING.

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ITALY

A) STATUS OF ENERGY BALANCES

ITALY ESTIMATES THAT OIL IMPORTS WILL INCREASE FROM
84.0 MTOE IN 1975 TO 116.6 MTOE IN 1985. THIS PROJECTION
IS BASED ON AN INCREASE IN ENERGY CONSUMPTION FROM 128.2
MTOE IN 1975 TO 204.8 MTOE IN 1985 AND AN INCREASE IN
ENERGY PRODUCTION FROM 25.1 MTOE IN 1975 TO 52.2 MTOE IN
1985.

ENERGY BALANCES ASSUME A GROWTH IN TOTAL ENERGY REQUIREMENTS OF 4.8 PERCENT ANNUALLY, A LARGE INCREASE IN NUCLEAR POWERED ELECTRICITY, A SIGNIFICANT INCREASE IN GAS IMPORTS, AND A MODEST INCREASE IN OIL AND GAS PRODUCTION AND COAL IMPORTS.

ENERGY DEMAND FIGURES ARE GOVERNMENT OBJECTIVES AND DEPEND ON ACHIEVING AN ANNUAL AVERAGE GDP GROWTH OF 4.5 PERCENT WHILE MAINTAINING A TPE/GDP RATIO OF 1.28, THE SAME AS THE 1973 RATIO. ENERGY PRODUCTION FIGURES ARE ESTIMATES PROVIDED BY STATE OWNED COMPANIES AND ARE CONSIDERED ATTAINABLE BY THE ITALIAN GOVERNMENT.

ENERGY BALANCES WERE SUBMITTED DECEMBER 17, 1976 AND ARE AVAILABLE TO THE SECRETARIAT AND THE ITALIAN DELEGATION.

B) ADEQUACY OF SUPPLY/CONSERVATION MEASURES

THE AIM OF THE ITALIAN NATIONAL ENERGY PLAN IS CONSISTENT WITH THE IEA OBJECTIVE OF REDUCING DEPENDENCE ON IMPORTED OIL. FULL REALIZATION BY 1985 OF ENERGY BALANCES SUBMITTED WILL INCREASE ITALY'S ABSOLUTE DEPENDENCE ON IMPORTED OIL TO 116.6 MTOE BUT DECREASE LIMITED OFFICIAL USE
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ITALY'S RELATIVE DEPENDENCE ON IMPORTED OIL, AS A PERCENT-AGE OF TOTAL ENERGY REQUIREMENTS, TO 56.9 PERCENT.

ACHIEVEMENT OF ENERGY BALANCES SUBMITTED DEPENDS ON FOUR CRITICAL ELEMENTS: A) STRONG CONSERVATION PROGRAM, B) RESTORATION OF ENEL FINANCIAL STRENGTH, C) LARGE INCREASE IN NUCLEAR POWERED ELECTRICITY WITH CORRESPONDING INVESTMENT REQUIREMENTS, D) AND SIGNIFICANT INCREASE IN GAS IMPORTS

1) NUCLEAR PROGRAM

ITALY HAS AN AMBITIOUS NUCLEAR PROGRAM AIMED AT ACHIEVING A NET INSTALLED CAPACITY BY 1985 OF BETWEEN 21.4 GW AND 26.4 GW. ENERGY BALANCES SUBMITTED, ON THE OTHER HAND, PROJECT AN INSTALLED CAPACITY OF 16.4 GW. TO DATE, ITALY HAS NUCLEAR PLANTS OF 1.4 GW OPERATING OR UNDER CONSTRUCTION, AN ADDITIONAL 4.0 GW HAVE BEEN AUTHORIZED AND SITED BUT HAVE NOT RECEIVED NECESSARY FINANCIAL COMMITMENTS AND AN ADDITIONAL 16 GW (16 PLANTS OF 1,000 MW) REMAIN IN THE PLANNING STAGE. GIVEN THE LEAD TIME REQUIRED FOR SITING, CONSTRUCTION, AND OPERATION OF NUCLEAR PLANTS IT IS LIKELY THAT ONLY 5.4 GW OF NUCLEAR CAPACITY WILL BE ON LINE BY 1985. OF THE ADDITIONAL 16 GW, TENDERS HAVE BEEN ASKED FOR 5

GW. THE ITALIAN NUCLEAR PROGRAM WAS BEING DEBATED IN PARLIAMENT AT THE TIME OF THE REVIEW.

A KEY ELEMENT OF ITALY'S ENERGY POLICY IS THAT ALL NEW BASE LOAD ELECTRICITY GENERATING STATIONS MUST BE NUCLEAR POWERED. THE MAJOR CONSTRAINT IDENTIFIED IN THE REVIEW TOWARD ACHIEVEMENT OF ITALY'S NUCLEAR PROGRAM OVER THE LONG RUN IS FINANCIAL. ENEL, THE STATE-OWNED UTILITY COMPANY, MUST MAKE LARGE INVESTMENTS OVER THE NEXT DECADE TO ACCOMPLISH THE PLANNED NUCLEAR EXPANSION. TO RAISE SUCH SUMS IN DOMESTIC OR INTERNATIONAL CAPITAL MARKETS ENEL LIMITED OFFICIAL USE
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WILL FIRST HAVE TO IMPROVE ITS PRESENT WEAK FINANCIAL POSITION BY ELIMINATING ITS ACCUMULATED DEFICIT.

ENEL HAS UNDERTAKEN TO IMPROVE ITS FINANCIAL SITUATION BY MAJOR INCREASES IN ELECTRICITY TARIFFS BUT THE REVENUES FROM SUCH INCREASES ARE ONLY SUFFICIENT TO SUSTAIN CURRENT WORKING CAPITAL REQUIREMENTS. THE ESTIMATED 16 BILLION DOLLAR NUCLEAR PROGRAM WILL REQUIRE ACCESS TO DOMESTIC AND INTERNATIONAL CAPITAL MARKETS OVER THE NEXT DECADE.

2) GAS IMPORTS

AS PART OF AN ACTIVE INTERFUEL SUBSTITUTION STRATEGY ITALY LOOKS TO GAS AS A READY SUBSTITUTE FOR IMPORTED OIL. NATURAL GAS PROVIDED SOME 15 PERCENT OF TPE IN 1975 (12.0 MTOE PRODUCTION AND 7.2 MTOE IMPORTS) AND IS EXPECTED TO PROVIDE MORE THAN 18 PERCENT OF TPE BY 1985 (14.7 MTOE PRODUCTION AND 22.3 MTOE IMPORTS). NATURAL GAS PRODUCTION OF 14.7 MTOE WILL MOST LIKELY BE FORTHCOMING AND LONG-TERM CONTRACTS HAVE BEEN SIGNED WITH THE NETHERLANDS, SOVIET UNION, LIBYA, AND ALGERIA TO PROVIDE THE PROJECTED NATURAL GAS AND LNG IMPORTS. ALGERIA PLANS TO EXPORT SOME 11 BILLION CUBIC METERS OF NATURAL GAS ANNUALLY TO ITALY BY THE EARLY 1980'S IF THE TRANS-MEDITERRANEAN UNDERSEA PIPELINE IS COMPLETED - COMPLETION OF THE PIPELINE BY 1985 IS UNCERTAIN CONSIDERING THE TECHNOLOGICAL AND FINANCIAL PROBLEMS YET TO BE RESOLVED. ITALY HAS NOT LOCATED FINANCING FOR SUCH A PROJECT AND CONSTRUCTION OF THE NECESSARY INFRASTRUCTURE FOR TRANSMISSION OF THE GAS HAS NOT BEEN INITIATED.

SUBSEQUENT TO SLT REVIEW OF ITALIAN ENERGY PROGRAM, ENI AND ALGERIAN STATE OIL COMPANY SONATRACH DECIDED TO ABANDON PLANS FOR A GAS PIPELINE BETWEEN ALGERIA AND ITALY VIA TUNISIA IN FAVOR OF TRANSPORTATION BY SHIP. THIS
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ALTERNATIVE APPROACH COULD REQUIRE CONSTRUCTION OF AN ADDITIONAL LIQUEFACTION PLANT AT ITALIAN END. THE

ITALIAN REGASIFICATION TERMINAL HAS NOT YET BEEN CHOSEN. TOTAL COST OF THE PROJECT IS ESTIMATED AT 2 BILLION DOLLARS ABOUT THE SAME AS FOR THE PIPELINE OPTION. LNG CONTRACT IS REPORTED TO CALL FOR 8.5 BILLION CUBIC METERS A YEAR FOR 20 YEARS BEGINNING IN 1982. SUCH A DEVELOPMENT DOES NOT CHANGE BASIC ASSESSMENT THAT DELIVERY AND UTILIZATION OF GAS IMPORTS FROM ALGERIA BY 1985 IS TENTATIVE.

3) CONSERVATION

THE ENERGY DEMAND FORECAST FOR 1985 ASSUMES A GROWTH IN TOTAL ENERGY REQUIREMENTS OF 4.8 PERCENT ANNUALLY AND MAINTENANCE OF A CONSTANT TPE/GDP RATIO OF 1.28. RESULTS EXPECTED ARE A LITTLE BETTER THAN AVERAGE FOR THE IEA AS A WHOLE THOUGH CONSERVATION POTENTIAL IS SOMEWHAT LIMITED CONSIDERING THAT ITALY HAS A VERY LOW TPE/CAPITA RATION OF 2.27 (1975). NEVERTHELESS, THIS IS THE AREA WHERE MORE CONCERTED EFFORTS MUST BE MADE TO OFFSET THE EXPECTED SHORTFALL IN NUCLEAR POWER AND GAS IMPORTS.

IN THE DOMESTIC/RESIDENTIAL SECTOR, A BASIC QUANTITY OF 150 KW OF ELECTRICITY A MONTH IS PROVIDED AT A SUBSIDIZED RATE. THIS ACCOUNTS FOR SOME 65 PERCENT OF DOMESTIC ELECTRICITY CONSUMPTION BY THIS SECTOR. IN THE TRANSPORTATION SECTOR, AUTOS AND GASOLINE ARE SO HEAVILY TAXED THAT THERE MAY NOT BE SUFFICIENT ENERGY CONSERVATION POTENTIAL THROUGH ADDITIONAL PRICE DISINCENTIVES, THOUGH SPEED LIMITS COULD BE LOWERED. THE INDUSTRIAL SECTOR IS EXPECTED TO CONSUME ALMOST 50 PERCENT OF TOTAL ENERGY REQUIREMENTS BY 1985, DESPITE THIS LARGE SHARE OF TPE, CONSERVATION EFFORTS IN THIS SECTOR ARE MINIMAL. WHILE ENERGY INTENSIVE INDUSTRIES IN ITALY ARE REASONABLY ENERGY EFFICIENT BY IEA STANDARDS, HIGHER TARIFFS FOR ELECTRICITY AND FINANCIAL

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INCENTIVES FOR ADOPTING ENERGY EFFICIENT TECHNOLOGY AND EQUIPMENT COULD IMPROVE ITALY'S ENERGY BALANCES. A BILL BEING CONSIDERED BY PARLIAMENT FOR INDUSTRIAL RECONVERSION, IF ADOPTED AND IMPLEMENTED, WILL HELP TO ACHIEVE THIS GOAL.

4) REVISED ENERGY BALANCES

BASED ON JUDGMENTS MADE AS A RESULT OF THE SLT REVIEW OF ITALY'S ENERGY PROGRAM, ACHIEVEMENT OF ENERGY BALANCES

SUBMITTED BY 1985 IS UNLIKELY FOR THE FOLLOWING REASONS:

A) EXPECTED SHORTFALL IN INSTALLED NUCLEAR CAPACITY AND
B) UNCERTAINTY REGARDING ALGERIAN GAS IMPORTS PENDING
RESOLUTION OF THE DELIVERY SYSTEM AND COMPLETION OF IN-
FRASTRUCTURE REQUIRED. DOMESTIC ENERGY PRODUCTION IS LIKELY
TO AMOUNT TO APPROXIMATELY 38.2 MTOE IN 1985 RATHER THAN
THE 52.2 MTOE PROJECTED BY THE GOVERNMENT. ENERGY CON-

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SUMPTION PROJECTIONS ARE ACHIEVEABLE AND COULD BE LOWERED
IF ADDITIONAL CONSERVATION PRACTICES ARE ADOPTED. ANY
LOWERING OF GDP GROWTH ASSUMPTIONS WILL ALSO REDUCE
ENERGY REQUIREMENTS. AS A RESULT, NET OIL IMPORTS ARE VERY
LIKELY TO BE GREATER THAN THE PROJECTED 116.6 MTOE AND
COULD BE 140 MTOE IF THE EXPECTED SHORTFALL IN NUCLEAR
PROJECTIONS AND ALGERIAN GAS IMPORTS ARE NOT OFFSET BY
DEMAND RESTRAINT MEASURES OR INCREASED COAL AND NATURAL
GAS IMPORTS FROM OTHER SOURCES.

C) SUPPLY/CONSERVATION MEASURES TO REINFORCE ENERGY
PROJECTIONS SUBMITTED

1) FULL IMPLEMENTATION OF THE NUCLEAR PROGRAM
SHOULD RECEIVE HIGH PRIORITY AS THE MOST VIABLE MEANS
OF REDUCING ITALY'S DEPENDENCE ON IMPORTED OIL.

TO ACCOMPLISH THE NUCLEAR PROGRAM OUTLINED BY
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ITALY (21.4 GW TO 26.4 GW OF INSTALLED CAPACITY), ENEL
MUST ELIMINATE ITS PAST DEFICIT AND MAINTAIN AND REINFORCE
FULL COST PRICING OF ELECTRICITY TO ALL SECTORS IN ORDER
TO GENERATE CAPITAL FOR FINANCING ITS AMBITIOUS NUCLEAR
CONSTRUCTION PROGRAM. THIS WILL IMPROVE ENEL'S CAPITAL
POSITION AND THUS ENHANCE ITS ABILITY TO RAISE NEEDED
ADDITIONAL FINANCING IN THE DOMESTIC AND INTERNATIONAL
CAPITAL MARKET.

ESTIMATED QUANTITATIVE EFFECT - 25 MTOE
OF FULL IMPLEMENTATION OF NUCLEAR PRO-
GRAM

2) ENERGY DEMAND SHOULD BE REDUCED BY ADOPTING THE
FOLLOWING CONSERVATION MEASURES: A) FULL COST PRICING
OF ELECTRICITY TO ALL SECTORS, B) FINANCIAL INCENTIVES
FOR ADOPTION OF CONSERVATION MEASURES BY ENERGY INTENSIVE
INDUSTRIES (AN INDUSTRIAL RECONVERSION BILL INCLUDING
SUCH PROVISIONS IS BEING CONSIDERED BY PARLIAMENT), C)
FULL IMPLEMENTATION OF THE RECENTLY PASSED LAW SETTING
THERMAL INSULATION STANDARDS FOR NEW AND EXISTING RE-
SIDENCES, ESTABLISHING STANDARDS FOR NEW HEATING SYSTEMS

AND REGULATING THE PERFORMANCE OF EXISTING SYSTEMS
D) ADOPTION OF APPLIANCE LABELING AND PROGRAMS SETTING
MINIMUM EFFICIENCY STANDARDS FOR APPLIANCES.

3) ITALY SHOULD PROVIDE OR OBTAIN THE NECESSARY
FINANCING TO ENSURE PROMPT COMPLETION OF THE TRANS-
MEDITERRANEAN GAS PIPELINE OR ALTERNATIVELY PROVIDE THE
NECESSARY FINANCING TO COMPLETE THE INFRASTRUCTURE

NECESSARY FOR LNG IMPORTS FROM ALGERIA.

ESTIMATED QUANTITATIVE EFFECT - 9 MTOE
OF SHORTFALL.

4) AN ALTERNATIVE ENERGY STRATEGY OR FALL-BACK
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POSITION SHOULD BE DEVELOPED. SUCH A STRATEGY SHOULD
CONSIDER INCREASED COAL IMPORTS RATHER THAN OIL FOR USE
IN GENERATING ELECTRICITY ESPECIALLY IF THE NUCLEAR
PROGRAM IS DELAYED.
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AS PART OF AN ACTIVE INTERFUEL SUBSTITUTION STRATEGY

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BEING CONSIDERED BY PARLIAMENT FOR INDUSTRIAL RECONVERSION, IF ADOPTED AND IMPLEMENTED, WILL HELP TO ACHIEVE THIS GOAL.

4) REVISED ENERGY BALANCES

BASED ON JUDGMENTS MADE AS A RESULT OF THE SLT REVIEW OF ITALY'S ENERGY PROGRAM, ACHIEVEMENT OF ENERGY BALANCES SUBMITTED BY 1985 IS UNLIKELY FOR THE FOLLOWING REASONS:
A) EXPECTED SHORTFALL IN INSTALLED NUCLEAR CAPACITY AND
B) UNCERTAINTY REGARDING ALGERIAN GAS IMPORTS PENDING RESOLUTION OF THE DELIVERY SYSTEM AND COMPLETION OF INFRASTRUCTURE REQUIRED. DOMESTIC ENERGY PRODUCTION IS LIKELY TO AMOUNT TO APPROXIMATELY 38.2 MTOE IN 1985 RATHER THAN THE 52.2 MTOE PROJECTED BY THE GOVERNMENT. ENERGY CON-

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C) SUPPLY/CONSERVATION MEASURES TO REINFORCE ENERGY PROJECTIONS SUBMITTED

1) FULL IMPLEMENTATION OF THE NUCLEAR PROGRAM SHOULD RECEIVE HIGH PRIORITY AS THE MOST VIABLE MEANS OF REDUCING ITALY'S DEPENDENCE ON IMPORTED OIL.

TO ACCOMPLISH THE NUCLEAR PROGRAM OUTLINED BY ITALY (21.4 GW TO 26.4 GW OF INSTALLED CAPACITY), ENEL MUST ELIMINATE ITS PAST DEFICIT AND MAINTAIN AND REINFORCE
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FULL COST PRICING OF ELECTRICITY TO ALL SECTORS IN ORDER TO GENERATE CAPITAL FOR FINANCING ITS AMBITIOUS NUCLEAR CONSTRUCTION PROGRAM. THIS WILL IMPROVE ENEL'S CAPITAL POSITION AND THUS ENHANCE ITS ABILITY TO RAISE NEEDED ADDITIONAL FINANCING IN THE DOMESTIC AND INTERNATIONAL CAPITAL MARKET.

ESTIMATED QUANTITATIVE EFFECT - 25 MTOE
OF FULL IMPLEMENTATION OF NUCLEAR PROGRAM

2) ENERGY DEMAND SHOULD BE REDUCED BY ADOPTING THE FOLLOWING CONSERVATION MEASURES: A) FULL COST PRICING OF ELECTRICITY TO ALL SECTORS, B) FINANCIAL INCENTIVES FOR ADOPTION OF CONSERVATION MEASURES BY ENERGY INTENSIVE INDUSTRIES (AN INDUSTRIAL RECONVERSION BILL INCLUDING SUCH PROVISIONS IS BEING CONSIDERED BY PARLIAMENT), C) FULL IMPLEMENTATION OF THE RECENTLY PASSED LAW SETTING THERMAL INSULATION STANDARDS FOR NEW AND EXISTING RESIDENCES, ESTABLISHING STANDARDS FOR NEW HEATING SYSTEMS AND REGULATING THE PERFORMANCE OF EXISTING SYSTEMS D) ADOPTION OF APPLIANCE LABELING AND PROGRAMS SETTING MINIMUM EFFICIENCY STANDARDS FOR APPLIANCES.

3) ITALY SHOULD PROVIDE OR OBTAIN THE NECESSARY FINANCING TO ENSURE PROMPT COMPLETION OF THE TRANSMEDITERRANEAN GAS PIPELINE OR ALTERNATIVELY PROVIDE THE NECESSARY FINANCING TO COMPLETE THE INFRASTRUCTURE

NECESSARY FOR LNG IMPORTS FROM ALGERIA.

ESTIMATED QUANTITATIVE EFFECT - 9 MTOE
OF SHORTFALL.

4) AN ALTERNATIVE ENERGY STRATEGY OR FALL-BACK POSITION SHOULD BE DEVELOPED. SUCH A STRATEGY SHOULD CONSIDER INCREASED COAL IMPORTS RATHER THAN OIL FOR USE LIMITED OFFICIAL USE
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IN GENERATING ELECTRICITY ESPECIALLY IF THE NUCLEAR PROGRAM IS DELAYED.
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UNQUOTE KISSINGER

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<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PROGRAMS (PROJECTS), PROGRESS REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 05-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE001999
Document Source: ADS
Document Unique ID: 00
Drafter: EB/ORF/FSE:DHICKEY:MEP
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Expiration:
Film Number: D770004-1232
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770193/baaevae.tel
Line Count: 591
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 0c9684de-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3681335
Secure: OPEN
Status: NATIVE
Subject: ENERGY: IEA/SLT REVIEW OF ITALIAN ENERGY PROGRAM
TAGS: ENRG, IT, IEA, SLT
To: ROME OECD PARIS
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/0c9684de-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009